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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
PALO VERDE UTILITIES COMPANY FOR AN
EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

DOCKET NO. SW-03575A-03-0586

IN THE MATTER OF THE APPLICATION OF
PALO VERDE UTILITIES COMPANY FOR AN
EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

DOCKET NO. W-03576A-03-0586

NOTICE OF FILING
SETTLEMENT AGREEMENT

Counsel for Palo Verde Utilities Company, Santa Cruz Water Company and Utilities
Division Staff hereby file this notice that they have entered into the attached Settlement
Agreement dated July 19, 2004.

RESPECTFULLY submitted this 19th day of July, 2004.

SNELL & WILMER

Arizona Corporation Commission

DOCKETED

JUL 19 2004

DOCKETED BY

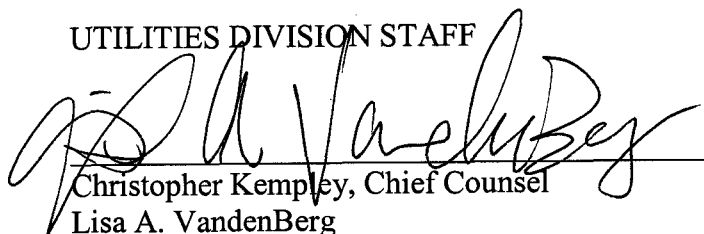
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Attorneys for Palo Verde Utilities Company
and Santa Cruz Water Company

UTILITIES DIVISION STAFF



Christopher Kempley, Chief Counsel

Lisa A. Vandenberg

Legal Division

ARIZONA CORPORATION COMMISSION

1200 West Washington Street

Phoenix, Arizona 85007

ORIGINAL and fifteen (15) copies
of the foregoing have been filed with
Docket Control this 19th day of
July, 2004.

A COPY of the foregoing was
been hand delivered this 13th day of
May, 2004, to:

Dwight D. Nodes
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Jim Fisher, Executive Consultant
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

A COPY of the foregoing was
mailed this 19th day of July,
2004, to:

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11 Phoenix, Arizona 85016
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13 
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**
3 MARC SPITZER- Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF)
9 PALO VERDE UTILITIES COMPANY FOR AN)
10 EXTENSION OF ITS EXISTING CERTIFICATE)
11 OF CONVENIENCE AND NECESSITY.)
12 IN THE MATTER OF THE APPLICATION OF)
13 SANTA CRUZ WATER COMPANY FOR AN)
14 EXTENSION OF ITS EXISTING CERTIFICATE)
15 OF CONVENIENCE AND NECESSITY.)

DOCKET NO. SW-03575A-03-0586

DOCKET NO. W-03576A-03-0586

SETTLEMENT AGREEMENT

11 Applicants Palo Verde Utilities Company, LLC ("Palo Verde") and Santa Cruz Water
12 Company ("Santa Cruz") (collectively the "Applicants"), Global Water Resources, LLC ("GWR")
13 and the Utilities Division Staff of Arizona Corporation Commission ("Staff"), each a party (and
14 collectively the "Parties") to Arizona Corporation Commission ("Commission") Docket No. SW-
15 03575A-03-0586 captioned IN THE MATTER OF THE APPLICATION OF PALO VERDE
16 UTILITIES COMPANY FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF
17 CONVENIENCE AND NECESSITY and Commission Docket No. W-03576A-03-0586 captioned
18 IN THE MATTER OF THE APPLICATION OF SANTA CRUZ WATER COMPANY FOR AN
19 EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (the
20 "Applications"), hereby stipulate and agree to the following settlement provisions in connection with
21 Applicants' request for an extension of each Applicant's Certificate of Convenience and Necessity
22 ("CC&N"). The following terms and conditions of this Settlement Agreement ("Agreement") are
23 intended to resolve all the issues among the undersigned Parties in a manner consistent with the
24 public interest.

25 **Terms and Conditions**

26 The Parties to the Agreement include the Applicants and Staff, who hereby agree to the
27 following:

28 1. **Statement of Intentions and Admissions.** The Parties hereby agree that the purpose of

1 this Agreement is to resolve any outstanding matters in Docket Nos. W-03576A-03-0586 and
2 SW-03575A-03-0586 in a manner consistent with the public interest. The Parties further recognize
3 that: (a) this Agreement acts as a procedural device to propose the Parties' settlement terms to the
4 Commission; and (b) this Agreement has no binding force or effect until finally approved by an order
5 of the Commission. Nothing contained in this Agreement is an admission by any Party that any of
6 the positions taken, or that might be taken by each in this proceeding, is unreasonable or unlawful.
7 In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position
8 taken by any Party in these proceedings.

9 2. Settlement Conditions. The Parties hereby agree that this settlement concerning
10 conditions of approval of the Applications reached between the Parties is contained in the document
11 attached hereto as Attachment A and incorporated herein by this reference (the "Settlement
12 Conditions"). The Parties hereby acknowledge and agree that the conditions set forth in the
13 Settlement Conditions are the result of negotiation and do not necessarily reflect the position of any
14 Party to this Agreement.

15 3. Applicants' Responsive Filing. The Parties are aware and accept that the Applicants
16 believe that a supplemental filing by the Applicants is necessary to complete the record in this
17 matter. Accordingly, a copy of the Supplemental Direct Testimony of Mr. Trevor Hill is being filed
18 contemporaneously with this Agreement. However, the Applicants' supplemental filing does not
19 necessarily reflect the position of any Party to this Agreement.

20 4. Staff Authority. The Parties recognize that (a) the Staff does not have the power to
21 bind the Commission; and (b) for the purposes of settlement, the Staff acts in the same manner as a
22 party in proceedings before the Commission.

23 5. Commission Authority to Modify. Each provision of this Agreement is in
24 consideration and support of all other provisions, and expressly conditioned upon acceptance by the
25 Commission without material change; provided, however, that the Parties further recognize that the
26 Commission will evaluate the terms of this Agreement, and that after such evaluation the
27 Commission may require immaterial modifications to any of the terms hereof before accepting this
28 agreement.

1 6. Commission Approval. In the event that the Commission adopts an order approving
2 all of the terms of this Agreement without material change, such action by the Commission
3 constitutes approval of the Agreement, and thereafter the Parties shall abide by its terms.

4 7. Effect of Modification by the Commission. In the event that any Party objects to any
5 modification to the terms of this Agreement made by the Commission in an order approving this
6 Agreement, such Party shall timely file an Application for Rehearing under A.R.S. § 40-253. In the
7 event that a Party does not file such an application, that Party shall be deemed (a) to have accepted
8 any modifications made by the Commission; and (b) to have conclusively and irrefutably accepted
9 that any modifications to terms of this Agreement are not material and therefore the Commission
10 order does adopt the terms of this Agreement without material change.

11 8. Application for Rehearing. If any Party to this Agreement files an Application for
12 Rehearing and alleges that the Commission has failed to approve all terms of the Agreement without
13 material change, then such application shall be deemed a withdrawal of the Agreement, and the
14 Parties shall request a Procedural Order setting Applicant's original Application for hearing. Such
15 hearing shall be without prejudice to the position of any Parties, and this Agreement and any
16 supporting documents relating thereto shall not be admitted into evidence for any purpose nor used
17 by the Commission in its final consideration of the issues raised in this Docket.

18 9. Appeal of Commission Decision. If a Party's application for rehearing alleges that
19 the Commission has failed to approve all terms of this Agreement without material change, and the
20 application for rehearing is denied, either by Commission order or by operation of law, and such
21 Party still objects to any modification to the terms of this Agreement made by the Commission, that
22 Party shall timely file an appeal of the Commission's decision pursuant to A.R.S. § 40-254 or § 40-
23 254.01, as appropriate. In the event that the Party does not file such an appeal, it shall be deemed (a)
24 to have accepted any modifications made by the Commission, and (b) to have conclusively and
25 irrefutably accepted that any modifications to the terms of this Agreement are not material and
26 therefore the Commission's order approves the Agreement without material change.

27 10. Limitations. The terms and provisions of this Agreement apply solely to and are
28 binding only in the context of the provisions and results of this Agreement and none of the positions

1 taken in this Agreement by any of the Parties may be referred to, cited to, or relied upon by any other
2 Party in any fashion as precedent or otherwise in any proceeding before the Commission or any other
3 regulatory agency or before any court of law for any purpose except in furtherance of the purpose and
4 results of this Agreement.

5 11. Definitive Text. The "Definitive Text" of this Agreement shall be the text adopted by
6 the Commission in an order adopting substantially all the terms of this Agreement including all
7 modifications made by the Commission in such an order.

8 12. Severability. Each of the terms of the Definitive Text of this Agreement is in
9 consideration and support of all other terms. Accordingly, such terms are not severable.

10 13. Support and Defend. The Parties pledge to support and defend this Agreement before
11 the Commission.

12 IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on this 19th day
13 of July, 2004.

14 PALO VERDE UTILITIES COMPANY, LLC
15 SANTA CRUZ WATER COMPANY, LLC

ARIZONA CORPORATION
COMMISSION UTILITIES DIVISION
STAFF

16
17 By: Cindy M. Liles
18 VP - General Manager

By: E. G. [Signature]
Utilities Director

19
20 GLOBAL WATER RESOURCES, LLC

21
22 By: [Signature]
23 PRESIDENT

1 **Attachment A**

2 **SETTLEMENT CONDITIONS**

3 Applicants Palo Verde Utilities Company, LLC ("Palo Verde") and Santa Cruz Water
4 Company, LLC ("Santa Cruz") (collectively the "Applicants"), Global Water Resources, LLC
5 ("GWR") and the Utilities Division Staff of Arizona Corporation Commission ("Staff"), each a
6 party (and collectively the "Parties") to Arizona Corporation Commission ("Commission") Docket
7 Nos. SW-03575A-03-0586 and W-03576A-03-0586 (the "Applications"), hereby stipulate and agree
8 to the following settlement conditions in connection with Applicants' requests for an extension of
9 each Applicant's Certificate of Convenience and Necessity ("CC&N") (collectively the
10 "Applications").

11 **Background**

12 On December 8, 2003, a hearing was held in the matter, and a recommended Opinion and
13 Order was set for the Commission Open Meeting scheduled for March 30, 2004. However, between
14 the conclusion of the hearing and the open meeting, the Applicants made a filing with regard to the
15 ownership of the utilities. This filing raised questions and concerns for the Commissioners and thus
16 at the March 30, 2004 Open Meeting the matter was sent back to hearing.

17 In response to these questions and concerns, the Parties have agreed to the following clarified
18 set of Staff's proposed conditions of approval. The conditions herein provide measures that will keep
19 the Commission informed of compliance issues (including bonds, ADEQ, ADWR, and ACC
20 Corporations Division filings) and GWR acquisitions, as well as provide the Commission a process
21 for review and approval of future ownership changes in the Palo Verde and Santa Cruz.

22 **Conditions**

23 The Parties hereby adopt and clarify the Staff Recommendations reflected on pages 21 and 22
24 of the Supplemental Staff Report filed on May 28, 2004 as follows, which conditions are in addition
25 to the conditions stated in the Recommended Opinion and Order dated January 22, 2004.

26 1. **Performance Bonds.** The Parties hereby agree that each of the Applicants will post
27 performance bonds with a total value of \$750,000 for each system and will maintain said bonds for a
28 period of at least 2 years and, upon the expiration of such, the bonds shall be maintained until such

1 time as the Commission approves a reduction request.

2 2. Bond Confirmation. The Parties hereby agree that Applicants shall evidence the
3 bonds discussed in Condition #1 (above) have been maintained by forwarding, each calendar quarter,
4 a letter of bond confirmation to the Director of Utilities. (Please note: a confirmation letter should be
5 filed each January 15, April 15, July 15 and October 15 covering the proceeding calendar quarter.)
6 The Parties further agree that if the bonds are not maintained pursuant to Condition #1, the Utilities
7 Division Staff may pursue an Order to Show Cause on the issue.

8 3. Acquisition Schedules. The Parties hereby agree that Global Water Resources, LLC
9 is the parent company of the Applicants. The Parties further agree that GWR will file (with the
10 Utilities Division Director) the attached Acquisition Schedule ("Schedule") (*see* Attachment B)
11 describing each investment GWR makes in a utility. The first Schedule filing shall be made within
12 180 days of the Order in this matter, and provide the requested information for all utilities owned by
13 GWR. An updated Schedule shall also be filed within 30 days of the acquisition of any utility
14 subsequent to the Order in this matter. As well, GWR shall file any necessary changes or corrections
15 to the most recent Schedule to make the Schedule accurate and current as of 180 days from the last
16 filed Schedule. Each Schedule shall be signed under oath and penalty of perjury by at least two
17 officers of GWR. Each Schedule may be filed confidentially with the Director as long as the
18 appropriate protective agreement has been executed by GWR with Staff prior to such filing.

19 4. Quarterly Compliance Reports. The Parties hereby agree that the Applicants will
20 submit quarterly reports documenting the Applicants' compliance status with the Arizona
21 Department of Environmental Quality, Arizona Department of Water Resources, and Arizona
22 Corporation Commission's Corporations Division. Each report shall be signed under oath and
23 penalty of perjury by at least two officers of GWR. The Parties agree that the quarterly reports
24 required in this Section 4 shall be filed with Docket Control and the Utilities Division Director each
25 January 15, April 15, July 15 and October 15 covering the preceding quarter.

26 5. Ownership Approval. The Parties hereby agree that the Commission shall be notified
27 of any proposed change in the ownership of the membership interests (including transfer or
28 additional memberships) in either Applicant prior to execution, through the Applicant's filing of a

1 Notice of Intent ("Notice") (which indicates the filing is made pursuant to the Decision in this
2 matter). The Parties further agree that once the Notice has been filed, the Commission shall have the
3 authority to initiate a proceeding within 60 days to determine approval of the change. The
4 transaction must receive Commission Approval prior to execution, unless the Commission elects to
5 not to initiate action within the above described 60 day period. If the 60 day period lapses with no
6 Commission action begun, the transaction may proceed absent approval.

7 6. Parties Recommendation. The Parties hereby agree that if all of the above five
8 conditions are adopted as part of the Opinion and Order in this matter, the Parties (both the
9 Applicants and Staff) recommend approval of the Applications.

10 The above concludes that Settlement Conditions as agreed to by the Parties on this ____
11 day of July, 2004.

12 PALO VERDE UTILITIES COMPANY, LLC
13 SANTA CRUZ WATER COMPANY, LLC

ARIZONA CORPORATION
COMMISSION UTILITIES DIVISION
STAFF

14 By: Cindy M. Lutz
15

By: E. C. [Signature]

16 The Applicants': VP - General Manager Its: Director, Utilities Division
17

18 GLOBAL WATER RESOURCES, LLC

19 By: [Signature]
20

21 The Parent Company's: PRESIDENT.
22
23
24
25
26
27
28

Attachment B
Acquisition Schedule

This Acquisition Schedule shall be prepared pursuant to the Settlement Conditions contained in Arizona Corporation Commission Dockets No. SW-03575A-03-0568 and No. W-03576A-03-0568.

PART 1

Describe below each investment in, or acquisition of, any utility made by Global Water Resources, LLC during the six month period ending on the date this document is executed.

PART 2

As of this date, the capital structures of Palo Verde Utilities Company, LLC (PVUC) and Santa Cruz Water Company (SCWC) and any other GWR acquired utility are as follows:

	PVUC		SCWC	
	Amount	%	Amount	%
Long-term Debt*				
Equity**				
		100.00%		100.00%
Acquired Company here				
	Amount	%		
Long-term Debt*				
Equity**				
		100.00%		

*Include current portion of Long-term Debt.

**Includes Common Stock, Paid In Capital and Retained Earnings (Deficit).

The undersigned also confirm that at no time during the last six months did the equity ratios (as calculated above) of PVUC and SCWC fall below 40%.

**WE THE UNDERSIGNED _____ AND _____, DO
SAY THAT THE ABOVE INFORMATION HAS BEEN PREPARED UNDER OUR DIRECTION AND WE
HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND
CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID COMPANIES FOR THE PERIOD
COVERED BY THIS REPORT IN RESPECT TO EACH & EVERY MATTER AND THING SET FORTH,
TO THE BEST OF OUR KNOWLEDGE, INFORMATION AND BELIEF.**

X _____ / /
SIGNATURE OF OWNER OR OFFICIAL/DATE

X _____ / /
SIGNATURE OF OWNER OR OFFICIAL/DATE